

Message Text

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TO ALL AMERICAN REPUBLIC DIPLOMATIC POSTS

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E.O. 11652:N/A

TAGS: ETRD, LA

SUBJECT:LIEVANO PROPOSAL FOR REGIONAL TRADE PREFERENCES

1. SEVERAL ARA POSTS HAVE RECENTLY BEEN APPROACHED BY FOREIGN MINISTRY OFFICIALS CONCERNING THE LIEVANO TRADE PROPOSAL MADE TO THE SECRETARY IN BOGOTA. THE FOLLOWING MESSAGE INDICATES THE NATURE OF THE INTERCHANGE, THE PRINCIPAL PROVISIONS OF THE LOME CONVENTION, AND THE IMPLICATIONS OF U.S. ADOPTION OF SUCH A PREFERENCE SYSTEM FOR LATIN AMERICA.

2. DURING THE SECRETARY'S RECENT VISIT TO LATIN AMERICA, COLOMBIAN FOREIGN MINISTER LIEVANO PROPOSED A RESTRUCTURING OF THE INTER-AMERICAN SYSTEM TO FACILITATE PREFERENTIAL TRADE RELATIONS WITHIN THE HEMISPHERE BASED, AS HE PUT
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IT, ON THE CONCEPT OF COMPARATIVE ADVANTAGE. LIEVANO

APPEARS TO BE THINKING ESSENTIALLY IN TERMS OF UTILIZING THE OAS AS A LOME-LIKE CONVENTION FOR REGIONAL TRADE PREFERENCES. THE SECRETARY RESPONDED THAT WE WOULD IMMEDIATELY SET UP A TASK FORCE TO "ADVANCE CONCRETE AND PRACTICAL IDEAS FOR DISCUSSION AT THE GENERAL ASSEMBLY OF THE ORGANIZATION OF AMERICAN STATES...FOR ARRANGEMENTS BETWEEN THE U.S. AND THE NATIONS OF LATIN AMERICA TO EXPAND TRADE WITHIN THE HEMISPHERE."

3. COLOMBIA, AND SEVERAL OTHER COUNTRIES IN LA, HAVE BEEN PROPONENTS OF REGIONAL PREFERENCES FOR SOME TIME. IN DISCUSSIONS PRIOR TO THE USGSP, HOWEVER, IT WAS CLEAR THAT MOST OF THE LARGER LA COUNTRIES (AND PERHAPS EVEN A MAJORITY OF ALL LA COUNTRIES) OPPOSED SUCH A SYSTEM. THE DEPARTMENT BELIEVES THAT SIGNIFICANT OPPOSITION TO A REGIONAL PREFERENCE SYSTEM CONTINUES TO EXIST IN LATIN AMERICA.

4. THE LOME CONVENTION IS AN ARRANGEMENT BETWEEN THE EC AND 45 AFRICAN, CARIBBEAN, AND PACIFIC COUNTRIES, ALMOST ALL OF WHICH ARE FORMER COLONIES OF EC MEMBER STATES. IT PROVIDES FOR DUTY-FREE ENTRY INTO THE EC OF ALL INDUSTRIAL PRODUCTS WITHOUT LIMITATION AND WITHOUT RECIPROCITY. A LARGE PERCENTAGE OF AGRICULTURAL TRADE IS ALSO DUTY-FREE, BUT MOST AGRICULTURAL ITEMS WHICH COMPETE WITH EC PRODUCTION RECEIVE LESS FAVORABLE TREATMENT. LOME COUNTRIES WILL BE ELIGIBLE FOR SOFT LOANS UNDER AN EXPORT EARNINGS STABILIZATION PROVISION (STABEX) TO OFFSET DECLINES IN SHIPMENTS AND PRICES OF A NUMBER OF COMMODITIES, PRINCIPALLY TROPICAL PRODUCTS. THEY HAVE ACCESS TO A SPECIAL EC AID FUND.

5. IF THE U.S. WERE TO FOLLOW THE LOME PRECEDENT, WE WOULD GIVE LATIN AMERICA DUTY-FREE TREATMENT ON ALL INDUSTRIAL PRODUCTS NOT NOW COVERED BY GSP AND REMOVE PRESENT GSP COMPETITIVE NEED LIMITATIONS. WE WOULD GIVE SUBSTANTIAL PREFERENCE ON AGRICULTURAL PRODUCTS, MOST OF WHICH ARE NOT NOW ON GSP. WE WOULD ELIMINATE QUANTITATIVE RESTRICTIONS ON TEXTILES AND PROBABLY WITHDRAW FROM GSP SOME PRODUCTS IMPORTED FROM NON-HEMISPHERE SUPPLIERS. WE WOULD ALSO PROVIDE A SUBSTANTIAL COMPENSATORY FINANCE FACILITY. LIMITED OFFICIAL USE

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6. WHILE SUCH A SYSTEM WOULD PROBABLY PROVIDE A STIMULUS FOR REGIONAL ECONOMIC DEVELOPMENT, IT ALSO HAS SERIOUS DISADVANTAGES. THE EXTENT OF U.S. DOMESTIC MARKET DISRUPTION THAT WOULD RESULT FROM SUCH AN ARRANGEMENT WOULD FAR EXCEED THAT WHICH THE EUROPEANS EXPERIENCED BECAUSE: (A) THE LATIN ECONOMIES ARE FAR MORE INDUSTRIALIZED AND CAPABLE OF EXPORTING LARGE QUANTITIES OF MANUFACTURED

PRODUCTS TO THE U.S. WHILE LOME COUNTRIES EXPORT FEW MANUFACTURES.

(B) THE LOME ARRANGEMENT REPLACED FREE TRADING ARRANGEMENTS WHICH HAD ALREADY PREVAILED BETWEEN EUROPE AND ITS COLONIES.

(C) THE POLITICAL AND COMMERCIAL RELATIONSHIPS BETWEEN THE EC COUNTRIES AND FORMER COLONIES ARE MORE CONDUCTIVE TO EFFECTIVE "MANAGEMENT" OF TRADE FLOWS THAN IN THE WESTERN HEMISPHERE.

7. FURTHERMORE, SUCH A WESTERN HEMISPHERE ARRANGEMENT WOULD REQUIRE TRADE LEGISLATION OR A TREATY GOING CONSIDERABLY BEYOND WHAT THE CONGRESS HAS BEEN WILLING TO ACCEPT TO DATE. THIS EXTREME FORM OF REGIONALISM WOULD BE SEEN AS A FUNDAMENTAL CHANGE IN U.S. POLICY WHICH WOULD DESTROY THE MTN, BE VOCIFEROUSLY PROTESTED BY THE REST OF THE WORLD, AND NEGATE OUR OBJECTIONS TO THE EC'S SPECIAL ARRANGEMENTS WITH DEVELOPING COUNTRIES.

8. ACCORDINGLY, IF THE LIEVANO PROPOSAL IS RAISED BY HOST COUNTRY OFFICIALS, YOU MAY WISH TO POINT OUT EXACTLY WHAT A LOME-LIKE ARRANGEMENT WOULD ENTAIL AND INDICATE THAT IT IS IMPROBABLE THAT THE U.S. WOULD BE ABLE TO ADOPT SUCH A REGIONAL TRADE SYSTEM WHICH WOULD INVOLVE A RADICAL DEPARTURE FROM OUR ADHERENCE TO TRADE POLICIES WHICH WE BELIEVE BEST SERVE OUR OVERALL ECONOMIC AND INTERNATIONAL POLITICAL INTERESTS. AT THE SAME TIME, YOU MAY OFFER ASSURANCE THAT WE ARE ATTEMPTING TO DEVELOP A RESPONSE TO THE LIEVANO PROPOSAL WHICH WILL PROVIDE SUBSTANTIAL TRADE BENEFITS TO LATIN AMERICA. SISCO

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